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Gabelli & Company, Inc.
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Greying of the Population

Encanecimiento de la población

Follow the Money

Over my thirty-year career as a professional investor, I have missed some of opportunities to make money for my clients and myself. In hindsight, these missed opportunities are always so obvious. When reviewing my “woulda, coulda, shouldas”, (generally with palm repeatedly and firmly slapping forehead), I often find a physiological, psychological, sociological, geographic theme . . . sometimes, something as simple as a demographic theme—a meaningful shift in composition and characteristics of the U.S. population—that I somehow ignored. To spare myself the pain and embarrassment of additional missed opportunities, I’ve learned to pay closer attention to changing demographics and their impact on the economy and financial markets. So, let’s look at one theme, namely, how our population is changing and try to position ourselves in front of potentially profitable demographic trends.

Counting Gray Hairs

The total US population is estimated to grow from 275 million in 2000 to 404 million in 2050, representing a compounded annual growth rate of just under one percent. As the following chart indicates, the biggest increase will be in the percentage of the U.S. population that is age 55 and older (21.4% in 2000 to 30.4% in 2025). The percentage of Americans in this category will accelerate rapidly over the next two decades as the baby boom generation qualifies for their AARP cards.

Age Categories	2000	2025	2050
Under 18	25.6%	23.8%	23.7%
18-54	53.1%	45.8%	45.2%
55 and Over	21.4%	30.4%	31.1%

How do older Americans spend their hard-earned dollars? Somewhat surprisingly, the number one expenditure category for mature Americans (55 and older) is housing, the same for the 18-54 age group. If you add home furnishings and equipment (furniture, bed and bath linens, floor coverings, appliances, computers, telephones, and fax machines), spending in this category increases significantly. Healthcare spending is relatively distant number two, followed by food at home, vehicle purchases, and financial services. Mature Americans also spend a relatively high percentage of their income on restaurant dining and other forms of entertainment.

The aging of the U.S. population is driving new products and services in the following categories:

- **Financial/Leisure**

- Innovative financial products and services such as long-term care insurance and reverse mortgages.
- Senior-oriented tour and travel options.

- **Healthcare**

- New drugs and treatment therapies such as Viagra, medical treatment drugs, osteoporosis-prevention drugs to name a few.
- Medical products/devices/services used by the elderly such as hearing aids, eye care aids, and emergency alert systems.
- Dental care products/services as more of the elderly are keeping their teethes longer.
- Health supplements such as Ginkgo biloba, NutraJoint, and Venastat.

- **Housing**

- Sunbelt residential housing, including active group and assisted-living retirement communities.

A Few New Wrinkles

The healthcare industry (major pharmaceuticals companies, health maintenance organizations, and managed care companies) is the purest and most obvious play on the aging of America. We will certainly see a surge in demand for healthcare products and services as Americans grow older. However, the profit picture for the healthcare industry is clouded by a number of factors, most notably the strong probability of ongoing pressure from the federal government to reduce healthcare costs.

Wall Street has also heralded the financial services sector as a way to play the aging of America. We agree that as the baby boomers move into retirement, the demand for asset management services, and specialty mortgage and insurance products will increase substantially. Many financial services firms have responded to this need by specifically targeting the boomers in the past. Going forth, they will continue to do so even more aggressively.

We are focusing our research efforts on those industries where supply and demand will be the primary forces determining future profitability and trying to identify investment niches others may have overlooked. Our analysts are often heard “whistling Dixie” as they evaluate opportunities—as baby boomers retire and head for warmer weather climates, the South will rise even further. Sunbelt homebuilders look interesting, as do developers of retirement and assisted living communities. You might also want to take a look at home furnishing and home improvement retailers concentrated in Sunbelt markets. For income oriented investors, residential real estate investment trusts (REITs) with warm weather portfolios may be very good investments. Depending on your financial resources, you might want to consider direct real estate investments. I have a colleague whose investments in building lots in an upscale Florida resort/retirement community quadrupled in value over the last three years while his equities portfolio has languished. He will need to tread cautiously as this may signal another Florida land bubble.

The health oriented supplements (nutraceuticals) business is also intriguing. As Americans search for that illusive fountain of youth, they will spend a lot of money on supplements believed to bolster the immune system, increase energy, improve concentration and memory, and help lubricate aching joints. The baby boomer generation wants to maintain an active lifestyle and get the most out of life even in their old age.

A Latin Beat

Another demographic trend offering investment opportunity is the rapid increase in the number of Hispanic Americans. According to Census 2000, the Hispanic population is 14% (39 million) of the total US population (including Puerto Rico) and is projected to grow to 15% (46 million) and 16% (51 million) by 2005 and 2010, respectively. Including Puerto Rico, Hispanics are already the nation's largest minority.

Marketing research firms indicate the already substantial buying power of Hispanic Americans is growing considerably faster than that of the general market. Based on US Census Bureau population projections and an assumed 5% annual increase in per capita income, aggregate Hispanic American income is projected to increase from \$600 billion in 2000 to \$695 billion in 2003. This corresponds to a 5% annual growth rate.

Hispanic American spending patterns are significantly different from other U.S. ethnic groups. They spend a higher percentage of income on housing, private transportation (autos), and groceries. They are also among media companies' best customers.

A June 2000 study by a marketing research firm shows that:

- 68% of Hispanics speak Spanish at home.
- 98% of Hispanics watch television. On average, Hispanics watch over 4.5 hours of Spanish-language television every day.
- 92% of Hispanics listen to the radio every day.
- More than 70% watch television or listen to the radio in Spanish.
- Close to 1 hour is spent reading the paper and listening to the radio every day.

In view of these statistics, media companies (broadcasters, cable television companies, entertainment programmers, and newspaper and magazine publishers) targeting the Hispanic American community have well above average growth potential. Presently, there are over 400 Hispanic radio stations. Print media outlets have been increasing. Spanish-language television is growing faster than mainstream television. Univision, a market leader among Spanish-language television networks, is now the fifth largest network for prime-time viewers. Mainstream media companies, such as Disney and Viacom's MTV, have begun to offer Hispanic programming.

Hispanic American geographic and age demographics are also very different from other ethnic categories. More than 60% of the U.S. Hispanic population lives in California and Texas, Arizona and New Mexico. New York, Florida, and Illinois account for an additional 30%. Hispanics are younger than other population groups in the US. Approximately 30% of Hispanics are 14 and under while 48% are under 24 (compared to 35% among non-Hispanics). These demographics are important because they translate into a very specific target market for the advertisers that support Spanish language media companies.

We are actively researching companies targeting the rapidly growing Hispanic population. One of our favorites in the media industry is Grupo Televisa. It is the number one producer of Spanish language programming in the world and should benefit from the overall increased demand for Spanish media. Outside the media industry, we like Grupo Bimbo. Grupo Bimbo is the leading bread maker in Mexico, which produces bread, cookies, tortillas, and snack foods under its brand names for the US and Latin American markets.

In Conclusion

When asked why he robbed banks, the colorful bank robber Willie Sutton said, "Because that's where the money is." That's the same explanation I offer as to why investors should pay attention to demographics. Demographics tell us where the money is going, how it will likely be spent, and helps us identify those companies positioned to benefit. Over the next decade we will experience a major change in American demographics as the baby boom generation reaches retirement age and ethnic groups such as Hispanics become a more significant force in the U.S. economy. If you ignore these changing demographics, you may find yourself applying palm to forehead and asking how you could have missed such obvious chances to make money.

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